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~~TOP SECRET~~

14 NOVEMBER 1955

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COMMUNIST CAMPAIGN AGAINST UNDERDEVELOPED AREA

I. Communists have launched major economic effort in support of their political objective to intervene openly in world affairs.

A. Most dramatic move is swift shift of attention to Middle East and the sale of arms.

1. Even as Moscow was smiling at West last spring, it was making arms offers to the Arabs.

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B. A coordinated Bloc effort has also been launched against the belt of needy nations stretching across southern Asia--an area with more than 700 million people, about 30 percent of the world's population.

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1. The major target is India, which is being offered the lion's share of Communist largess.
  2. The most immediate objective may be Afghanistan, which, because of its troubles with Pakistan, is in the throes of a basic policy re-appraisal.
- C. Communists enjoying success in other areas which have resisted them before.
1. 1954 Latin American trade with bloc increased by 400 percent over 1953. Bloc pressing to expand this trade.

II. Proposed Bhilai steel mill for India with one million ton capacity is most ambitious Bloc project in free world to date.

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- A. This deal seems virtually certain.
1. Both sides have large propaganda stake.
  2. Both sides using top personnel and plans.
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- C. Moscow is to submit detailed plans to New Delhi for approval next month.
1. Krishnamachari, Indian minister of commerce and industry, says Soviet steel plant will be built.
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III. The Bloc is already actively engaged in other projects in India.

- A. USSR is building diamond mining plant for Panna Diamond Syndicate.

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B. Substantial and genuine Soviet offers began in spring 1954.

1. USSR offered to supply a cement plant, help build a soda ash plant and a coal-washing plant.
2. In May 1955, Moscow agreed to give technical aid, including tools and materials, for Tranvancore-Cochin tunnel (railway or hydro-electric).
3. In July, the USSR offered to supply generators for Bahkra-Nangal hydro-electric project.
  - a. Cost estimated between \$16 and \$42 million.

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IV. Other bloc nations are stepping up efforts to gain economic foothold in India.

A. On 6 November, Czech delegation headed by Foreign trade minister Dvorak arrived in India with proposals for India's second five-year plan.

(Begins 1 April 1956).

1. Dvorak said Prague considered capital investment tantamount to economic interference. He suggested Czechs would rather offer aid and equipment and retain no hold over parts of Indian economy.
2. Czechs have given Nehru a twin-engined sports plan (Aero 45).

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B. Hungary is building copper wire plant at Patiala with a capacity of 170,000 pounds.

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1. Budapest has offered to build arms factory in exchange for Indian goods; including red mud with 14.5 percent titanium.
2. Budapest ~~may~~ also <sup>Reported to be</sup> offering to build a cement plant, caustic soda plant, and soda ash plant.
3. All these above activities are in addition to regular trade pact.

C. Bloc has successfully penetrated Indian planning circles and Bloc pressure continues.

1. In response Indian request, USSR sent team of high-level economists and mathematicians, including one former GOSPLAN member, to Indian Statistical Institute in November 1954.
2. Poland sent Oscar Lange, a top economic planner <sup>to the Institute</sup>
3. (US sent one junior statistician)

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4. Latest Soviet offers include the arrival, expected soon, of 7 experts to advise on exploration and development of Indian oil industry.
  - a. USSR has offered technical aid and equipment in mineral development program.
  - b. Has offered to build plant to make oil-prospecting equipment.
- D. (In context foregoing, any change in Congress-approved loan of \$50 million would evoke sharp reaction.)
- V. Scene now being set for even closer Soviet-Afghan ties. Growing economic links with Bloc and Prime Minister Daud's anti-Pakistan policy make Afghanistan most immediately susceptible to Soviet blandishments.
  - A. During 1954 Czechs extended \$5 million credit and USSR \$6.2 million credit.

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1. Under Czech credit, cement plant is being built.



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- B. Under Soviet credit, gasoline and grain storage facilities, flour mill and bakery, and road building projects all completed.

1. Gasoline pipeline from Soviet border still under discussion.

C.



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1. (US Export-Import Bank loans for Helmand Valley project at  $3\frac{1}{2}$  and  $4\frac{1}{2}$  percent.)



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1. Reports persist of more Soviet offers.

a. These include hospital, university teachers and equipment and water systems.

E. Former president Helmand Valley Authority says  USSR has offered take over this large irrigation and power project, finish construction, and pay off US loan.

1. Morrison-Knudsen (US contractor) has been asked bring all equipment in through USSR.

2. This may be beginning harassing campaign and American companies and personnel.

3. However, since Afghans themselves deeply committed in Helmand Valley project, they may not turn it over to anyone.

F. Other ties with Bloc are direct result Afghan quarrel with Pakistan.

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1. Improvement of roads leading to USSR being rushed.
2. Oxus river entry port being developed.
3. West German-Afghan trade passing both ways transiting USSR.
  - a. Cost same or less than old route through Pakistan.

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G. Major policy decision now pending in Afghan government.

1. Grand Assembly of Tribes (Loe Jirga)--first since 1941--meeting to endorse Daud's Pushtoonistan policy.
2. King Zahir Shah's recent letters to President Eisenhower, Turkish president, and Queen Elizabeth point up effort to elicit Western intentions.
3. Even formal approval Daud's policy entails need more military strength and less dependence on Pakistan trade routes.

H. Daud is more pro-Soviet and anti-Pakistani than other Afghan elements, but he is in control.

1. Moslem pressures against ties with USSR vitiated by Arab deals with Bloc.
2. Bulganin-Khrushchev stop-over end of November in Kabul now scheduled to be three-four day visit.

VI. Size and technique of Communist campaign suggest high-level coordination as well as skill and speed in countering Western influence.

A. Czechs evidently chosen--possibly at April meeting in Prague--to spearhead campaign in Arab world.

1. Immediate aims are to:
  - a. Nullify Western-sponsored mutual defense planning.

b. Encourage mergeance of neutral-  
ist bloc which would give Bloc,  
as well as West, voice in area  
affairs.

B. Penetration of India--and to lesser ex-  
tent of Indonesia and Burma--appears  
to be Sino-Soviet-bloc-wide effort.

Some competition at lower levels evi-  
dently ordered among Satellites.

1. Receptivity by underdeveloped  
nations has grown as a result of  
recent series of tours of bloc.
2. Experts as well as diplomats are  
impressed by "sincerity" of Bloc  
technicians to help with local  
development plans.

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D. Soviet offers are attractive because of their easy terms, because recipients can see no visible strings, and because other sources of aid seem to be drying up or less suited to local conditions.

1. Most Bloc offers are at nominal interest rates (2-2½ percent) with easy payments in local currencies or traditional exports.
2. Governments are not asked for political or military commitments.

3. Countries burdened with ambitious development programs and unavalable surpluses see a ready market in the Bloc to get capital equipment and arms.

4. Western offers for labor-saving machinery in hard currencies are not as attractive to nations with great numbers of unemployed and little cash.

E. While underdeveloped nations save foreign exchange, the USSR builds up credits in soft currencies.

1. This war chest may be used as the Communists see fit within the country.

1. Besides arms deals with Arabs and strong push against India and Afghanistan, Communist effort can be seen throughout Middle East, Asia, and Latin America.

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- A. Egypt. USSR is known to have made offers of goods and services on credit to help with Aswan high dam.
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2. Cairo press report of 17 October names figure of \$300 million, which is about what Egypt would need in foreign exchange or goods.

- B. Turkey. Technoexport requested investigation in July on building wheat mill, macaroni factory, and brick factory.

1. Early this year Moscow showed interest in helping Turkish firm equip cotton thread factory.
2. More than 10 percent of Turkish trade now with USSR-an increase of 85 percent in first half 1955 over 1954.

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C. Iran. Budapest stated in May it would be interested in building a bridge.  
1. Czech press said in June Czechs had "established" sugar refinery in Iran. No other reports. only

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E. Lebanon. Czechs now negotiating to supply 7 factories--procelain, crystal, glass, sugar, and electrical materials.

1. Payments in kind over 7 years.
2. Hungary negotiating for cement factory.

RADIO  
REPORTS  
(FBIS)

THAT  
POLISH TRADE  
DELEGATION  
ARRIVED  
IN  
BEIRUT.

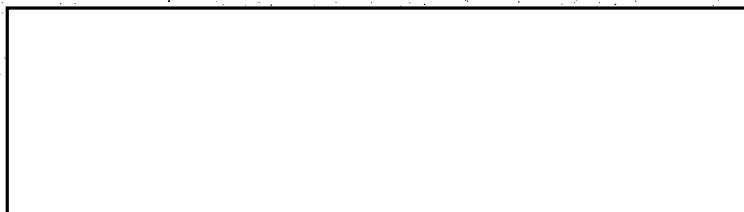
F. Burma. Under three-year trade agreement with USSR signed July, Soviet technicians are to study industrial development in Burma. USSR offered machinery, rice mill equipment, textile factories, hydro-electric plants, and agricultural aid.

1. Bloc is committed this year to buy one-half Burmese export rice surplus. Only new market available to Burma.

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2. Rumanian mission to visit Burma this month. Rumanians have offered sympathetic consideration any Burmese request petroleum and mining exports.
3. Burmese purchasing mission touring USSR.
4. Peiping has offered large loan and/or aid.

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- b. Peiping has offered textile mill equipment. Chinese technicians now in Burma on survey.
5. Indonesia. East Germans have contracted to build sugar mill. Estimated cost between \$3.5 and \$4.5 million.
  1. Payment in kind over six years.

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2. 60 German technicians on the job.
3. Rumanians to build cement plant, drill for oil and exploit minerals.
4. Czechs to build radio factory, pharmaceutical plant, agricultural machinery factory, and establish food research lab in Djakarta. Czechs to give technical aid and equip canvas plant.
5. Hungary to build hydro-electric and diesel plants.
6. Rumanians and East Germans now drilling for oil at Atjeh. (*Sumatra*)

H. Latin America. Bloc meeting considerable success expanding both diplomatic and commercial relations.

1. Latin American trade with bloc in 1954 increased by 400 percent over 1953.
2. Hungary seeking to open network commercial agencies.

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3. Poland wants to expand trade with Brazil to \$25 million each way.

5. Soviet export drive aimed at Argentina to reduce Moscow's large deficit.

I. Czech Technical Directorate representatives have been touring Near East and Southeast Asia. This organization handles exports military equipment.

1. This outfit behind Guatemalan deal and in Egyptian arms deal.
2. To date, arms merchants have visited India, Iraq, Burma, Egypt, and Afghanistan.

III. Since 1946 to date the USSR has extended almost \$1.7 billion in economic (non-military) credits to other Sino-Soviet bloc countries.

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- A. European satellites have received about \$1.3 billion.
- B. Communist China has received about \$430 million.
- C. Interest rate averages about 2 percent, ranging from 1 percent in case of China to 3 percent in the case of Rumania.
- D. USSR is still owed about \$600 million on these credits which could be paid in full by 1965.
- E. These credits are in addition to Soviet gift of \$100 million and Chinese gift of \$340 million to North Korea.
- F. None of the above includes further military and economic aid from USSR to Communist China estimated at between \$500 million and \$1 billion.

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